APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

03-1380

COMPETITIVE TECHNOLOGIES, INC.,
Plaintiff,

and

BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS,
Plaintiff-Appellant,

v.

FUJITSU, LIMITED and FUJITSU HITACHI PLASMA DISPLAY LIMITED,
Defendants-Appellees,

and

FUJITSU AMERICA, INC., FUJITSU GENERAL AMERICA CORP., FUJITSU GENERAL LIMITED, and FUJITSU MICROELECTRONICS, INC.,
Defendants.

Morgan Chu, Irell & Manella LLP, of Los Angeles, California, argued for plaintiff-appellant. With him on the brief were *Joseph M. Lipner* and *Perry Goldberg*. Of counsel was *Dan Goldman*.

Karen L. Hagberg, Morrison & Foerster LLP, of New York, New York, argued for defendants-appellees. With her on the brief were *Preston Moore* and *Jun Tsutsumi*. Of counsel was *James Oliva*, of Palo Alto, California.

Appealed from: United States District Court for the Northern District of California

Magistrate Judge Joseph C. Spero

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

03-1380

COMPETITIVE TECHNOLOGIES, INC.,
Plaintiff,

and

BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS,
Plaintiff-Appellant,

v.

FUJITSU LIMITED and FUJITSU HITACHI PLASMA DISPLAY LIMITED,
Defendants-Appellees,

and

FUJITSU AMERICA, INC., FUJITSU GENERAL AMERICA CORP., FUJITSU GENERAL LIMITED, and FUJITSU MICROELECTRONICS, INC.,
Defendants.

DECIDED: June 30, 2004

Before MAYER, GAJARSA, and DYK, *Circuit Judges*.

DYK, *Circuit Judge*.

The Board of Trustees of the University of Illinois ("the University") brought suit against Fujitsu Limited; Fujitsu General Limited; Fujitsu Hitachi Plasma Display Limited; Fujitsu General America, Inc.; and Fujitsu Microelectronics, Inc. (collectively, "Fujitsu"), alleging that Fujitsu infringed U.S. Patent Nos. 4,866,349 (the "'349 patent") and 5,081,400

(the "'400 patent"). Fujitsu asserted affirmative defenses and counterclaims against the University.[1] The University sought to have some of the counterclaims dismissed on Eleventh Amendment sovereign immunity grounds. The United States District Court for the Northern District of California denied the University's motion to dismiss Counterclaims 6-11 but stated that "it may be necessary to revisit the question of [the University's] waiver of Eleventh Amendment immunity." *Competitive Techs. v. Fujitsu Ltd.*, 286 F. Supp. 2d 1118, 1140 n.15 (N.D. Cal. 2003). The University appealed, claiming that the district court's order was immediately appealable under the collateral order doctrine of *Puerto Rico Aqueduct & Sewer Authority v. Metcalf & Eddy, Inc.*, 506 U.S. 139 (1993). We dismiss the appeal for lack of jurisdiction.

BACKGROUND

On December 21, 2000, the University filed suit together with its licensee, Competitive Technologies, Inc. ("CTI"), against Fujitsu in the United States District Court for the Central District of Illinois ("the Illinois district court"), alleging infringement of the '349 and '400 patents. The action was stayed pending an investigation by the International Trade Commission ("ITC"), which was initiated with a complaint by the University and CTI. After the ITC dismissed the complaint, the Illinois district court lifted the stay on September 25, 2001. On April 2, 2002, the Illinois district court granted Fujitsu's motion to transfer the case to the United States District Court for the Northern District of California. On May 22, 2002, Fujitsu filed its answer asserting affirmative defenses to the University's and CTI's

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[1] Only Fujitsu Hitachi Plasma Display Limited and Fujitsu Limited are counterclaimants for the pertinent counterclaims. Like the district court and the parties, we refer to both the defendants and the counterclaimants as "Fujitsu."

patent infringement complaint, and bringing thirteen counterclaims against CTI. Among its affirmative defenses, Fujitsu asserted "misuse and attempted misuse of the patents," "unclean hands," and "inequitable conduct" by the University and CTI "as described in greater detail in [Fujitsu's] Counterclaims." (J.A. at 315-16.) Counterclaims 1-5 were claims for declaratory judgments of invalidity, non-infringement, and unenforceability of the '349 and '400 patents; Counterclaims 6-9 were state-law claims of breach of confidentiality, misappropriation of trade secrets, fraud, and negligent misrepresentation; Counterclaims 10 and 11 were claims of unfair competition based on the allegedly baseless filing by the University and CTI of the ITC action with respect to the '349 and '400 patents; and Counterclaims 12 and 13 were claims of abuse of process in the ITC with respect to the '349 and '400 patents.[2] The counterclaims (unlike

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[2] The district court provided the following summary of Fujitsu's counterclaims:

> First Counterclaim: Claim for declaratory judgment re invalidity of '349 Patent claims;
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> Second Counterclaim: Claim for declaratory judgment re non-infringement of '349 Patent claims;
>
> Third Counterclaim: Claim for declaratory judgment re invalidity of '400 Patent claims;
>
> Fourth Counterclaim: Claim for declaratory judgment re non-infringement of '400 Patent claims;
>
> Fifth Counterclaim: Claim for declaratory judgement [sic] re unenforceability of '349/'400 Patents;
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> Sixth Counterclaim: Breach of confidentiality based on disclosure of information concerning "pendency and timing" of licensing negotiations between Competitive and Fujitsu;
>
> Seventh Counterclaim: Misappropriation of trade secrets based on disclosure of information "concerning the existence, status, and/or substance of the confidential business discussions" between Fujitsu and Competitive;
>
> Eighth Counterclaim: Fraud based on allegedly intentional conceal-

the affirmative defenses) were originally only asserted against CTI, but Fujitsu amended its answer to include the University as a counterdefendant to all of its asserted counterclaims on October 2, 2002.[3] With respect to Counterclaims 6-9, Fujitsu alleged that CTI acted "with and for" the University, while, for Counterclaims 10 and 11, Fujitsu alleged that both CTI and the University acted "in bad faith" in filing the ITC action. (J.A. at 404-10.)

On October 18, 2002, the University filed a motion to dismiss Counterclaims 5-13, alleging, among other things, that Counterclaims 6-13 violated its Eleventh Amendment sovereign immunity.[4] In an order dated February 24, 2003,

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ment of [ ] and on representation that [ ]

Ninth Counterclaim: Negligent misrepresentation based on same alleged misrepresentations as Eighth Counterclaim;

Tenth Counterclaim: Unfair competition re '349 Patent based on filing of patent infringement complaint before the ITC that was allegedly "baseless" and "without merit";

Eleventh Counterclaim: Unfair competition re '400 Patent based on filing of patent infringement complaint before the ITC that was allegedly "baseless" and "without merit";

Twelfth Counterclaim: Abuse of process re '349 Patent based on initiation of ITC proceeding, knowing '349 Patent was invalid and not infringed, for improper purposes, including to obtain a quick settlement and discovery through the ITC proceeding;

Thirteenth Counterclaim: Abuse of process re '400 Patent based on initiation of ITC proceeding, knowing '349 Patent was invalid and not infringed, for improper purposes, including to obtain a quick settlement and discovery through the ITC proceeding.

Competitive Techs., 286 F. Supp. 2d at 1125-26 (omissions of confidential material in original).

[3] On November 19, 2002, the district court dismissed CTI as a plaintiff, but CTI remains a counterdefendant in the action.

[4] The University admitted that it had waived its Eleventh Amendment sovereign immunity with respect to Counterclaims 1-5 (for declaratory judgments of invalidity, non-infringement, and unenforceability of the

the district court held that it had supplemental jurisdiction over the asserted counterclaims. *Competitive Techs.*, 286 F. Supp. 2d at 1142-43. Considering the claim of Eleventh Amendment immunity, the district court held the University is an "arm of the State" entitled to claim sovereign immunity.[5] *Id.* at 1134. However, it held that the University had waived its sovereign immunity for Fujitsu's counterclaims because they were compulsory:

> The Court concludes that Fujitsu's counterclaims are based on the same underlying factual *allegations* as are its affirmative defenses. In particular, the factual allegations supporting Fujitsu's affirmative defense of unclean hands encompasses all of the conduct alleged in support of Counterclaims Six through Thirteen. Therefore, the Court holds that [the University] has waived its Eleventh Amendment immunity as to Counterclaims Six through Thirteen.

Id. at 1139 (emphasis in original). The district court further noted:

> The Court is also mindful that at this stage of the proceedings, it is impossible to know whether or not Fujitsu's affirmative defenses will be supported by the evidence. If the Court determines at a later stage of this case that Fujitsu's affirmative defenses are not supported by the evidence or are otherwise insufficient as a matter of law, it may be necessary to revisit the question of [the University's] waiver of Eleventh Amendment immunity.

Id. at 1139 n.15. The district court also denied the University's motion to dismiss Counterclaims 6-11 on the alternative ground that they did not state a claim upon which relief

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'349 and '400 patents) because they are compulsory counterclaims. *Competitive Techs.*, 286 F. Supp. 2d at 1127 n.9.

[5] On appeal, Fujitsu does not raise the issue of whether the University is an "arm of the State."

could be granted, *see* Fed. R. Civ. P. 12(b)(6), but it granted the University's motion to dismiss Counterclaims 12 and 13 (for abuse of process in the ITC) for failure to state a claim. *Competitive Techs.*, 286 F. Supp. 2d at 1143-56. The district court dismissed Counterclaim 5 (for a declaratory judgment of unenforceability of the '349 and '400 patents) for failure to state a claim upon which relief could be granted, but only "to the extent that Fujitsu seeks a broader remedy" than a declaration of unenforceability of the patent based on the University's alleged patent misuse. *Id.* at 1161.

On March 11, 2003, the University appealed the district court's denial of the University's motion to dismiss Counterclaims 6-11, alleging that the district court erred in holding that the University had waived its Eleventh Amendment sovereign immunity with respect to those counterclaims. The district court stayed Counterclaims 6-11 against the University, but not CTI, pending this appeal. In an order dated July 31, 2003, which was corrected on August 8, 2003, the district court held, among other things, that claims 5-11 of the '349 patent are invalid for indefiniteness under 35 U.S.C. § 112, ¶ 2. *Competitive Techs. v. Fujitsu Ltd.*, 286 F. Supp. 2d 1161, 1192 (N.D. Cal. 2003). There is no issue with respect to Counterclaims 5, 12, or 13 or with respect to the validity of the claims of the '349 patent on this appeal.

DISCUSSION

Although neither party in its briefs contests this court's jurisdiction, we are nonetheless obligated to determine whether we have jurisdiction over this appeal. "[E]very federal appellate court has a special obligation to 'satisfy itself . . . of its own jurisdiction . . . ,' even though the parties are prepared to concede it." *Bender v. Williamsport Area Sch. Dist.*, 475 U.S. 534, 541 (1986) (quoting *Mitchell v. Maurer*, 293 U.S. 237, 244 (1934)); *see also, e.g., Steel Co. v. Citizens for a Better Env't*, 532 U.S. 83, 95 (1998); *Co-Steel Raritan, Inc. v. Intl Trade Comm'n*, 357 F.3d 1294, 1303 (Fed. Cir.

2004); *Corus Group PLC v. Intl Trade Comm'n*, 352 F.3d 1351, 1357 (Fed. Cir. 2003). We conclude that we do not have jurisdiction.

I

The judgment of the district court is not final under 28 U.S.C. § 1291, and the district court has not issued the certificate required by either Federal Rule of Civil Procedure 54(b) or 28 U.S.C. § 1292(b). The University's theory is that we have jurisdiction under the *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541 (1949), exception allowing appeals from certain collateral orders. In *Cohen*, pursuant to a state statute, the corporate defendant in a shareholder derivative action sought indemnity for the expenses and attorney's fees of its defense from the shareholder who had brought the action. *See id.* at 545. The district court refused to apply the state statute, holding that it was not applicable in federal court. *See id.* The Supreme Court held that the district court's order refusing to apply the statute was not a final judgment. *Id.* at 545-46. However, the Court created an exception to the final judgment rule, permitting immediate appeals from orders that "fall in that small class which finally determine claims of right separable from, and collateral to, rights asserted in the action, too important to be denied review and too independent of the cause itself to require that appellate consideration be deferred until the whole case is adjudicated." *Id.* at 546.

The Court subsequently restated the test for an appealable collateral order in *Coopers & Lybrand v. Livesay*, 437 U.S. 463 (1978), as follows: "To come within the 'small class' of decisions excepted from the final judgment rule by *Cohen*, the order must conclusively determine the disputed question, resolve an important issue completely separate from the merits of the action, and be effectively unreviewable on appeal from a final judgment." *Id.* at 468.

The *Cohen* collateral order doctrine has special application

where a defense of sovereign immunity has been asserted. In *Puerto Rico Aqueduct*, the Puerto Rico Aqueduct and Sewer Authority ("the Authority") moved to dismiss the suit against it, claiming that the Eleventh Amendment prohibited the suit because the Authority was an "arm of the State." *See* 506 U.S. at 141. The district court found that the Authority did not qualify for immunity "because of its ability to raise funds for payment of its contractual obligations which do not affect the Commonwealth's funds" and denied the motion to dismiss. *Id.* at 141-42. The Authority appealed, and the court of appeals dismissed the appeal for want of jurisdiction, holding that the order was not appealable because it was not a collateral order and because there was no final judgment. *See id.* at 142. The Supreme Court reversed, holding "that States and state entities that claim to be 'arms of the State' may take advantage of the collateral order doctrine to appeal a district court order denying a claim of Eleventh Amendment immunity." *Id.* at 147. Relying on its earlier decision in *Coopers & Lybrand*, the Court stated: "To come within the 'small class' of . . . *Cohen*, the order must [1] conclusively determine the disputed question, [2] resolve an important issue completely separate from the merits of the action, and [3] be effectively unreviewable on appeal from a final judgment." *P.R. Aqueduct*, 506 U.S. at 144 (quoting *Coopers & Lybrand*, 437 U.S. at 468). The first of these requirements has not been satisfied here.

II

The decision of the district court on the issue of sovereign immunity does not "conclusively determine" that question, and we therefore need not determine whether the second and third parts of the *Coopers & Lybrand* test are satisfied.

The parties agree that Counterclaims 6-11 would normally be barred by sovereign immunity, but Fujitsu argues that the University waived its sovereign immunity by bringing the patent infringement suit against Fujitsu. A state's Eleventh

Amendment "sovereign immunity is 'a personal privilege which it may waive at pleasure.'" *Coll. Sav. Bank v. Fla. Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 675 (1999) (quoting *Clark v. Barnard*, 108 U.S. 436, 447 (1883)). For example, "when a state files suit in federal court to enforce its claims to certain patents, the state shall be considered to have consented to have litigated in the same forum all compulsory counterclaims, *i.e.*, those arising from the same transaction or occurrence that gave rise to the state's asserted claims." *Regents of the Univ. of N.M. v. Knight*, 321 F.3d 1111, 1126 (Fed. Cir. 2003); *see also Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 946 (Fed. Cir. 1993), *overruled in part on other grounds by Wilton v. Seven Falls Co.*, 515 U.S. 277, 289 (1995). The question is whether Counterclaims 6-11 are compulsory.

Here, the district court determined that "counterclaims should be considered compulsory when they are based on the same 'transaction or occurrence' as the plaintiffs causes of action *and* the affirmative defenses asserted in the action." *Competitive Techs.*, 286 F. Supp. 2d at 1139 (emphasis in original). But it has not "conclusively determine[d]" whether Counterclaims 6-11 are compulsory. The University argued in the district court that these counterclaims are not compulsory because the affirmative defenses themselves should have been dismissed, urging that they "do not allege facts sufficient to constitute an affirmative defense or contain surplus allegations of fact which do not amount to a defense." *Id.* at 1140 n.15.

The University devotes a substantial portion of its briefs on this appeal to strenuously rearguing this same question, urging that there is no basis for claims of patent misuse or unclean hands. With respect to Counterclaims 6-11, the district court refused to address the argument that Fujitsu's affirmative defenses "do not allege facts sufficient to constitute an affirmative defense or contain surplus allegations of

fact which do not amount to a defense" because the argument was improperly raised in a reply brief. *Id.*

Fujitsu concedes that the sovereign immunity inquiry would be altered by any dismissal of its affirmative defenses by the district court as a result of such a finding, stating that "the question of [the University's] waiver of sovereign immunity may need to be revisited at a later stage in the proceedings (*e.g.*, if the counterclaims and affirmative defenses did not survive summary judgment)." (Br. of Defs.-Appellees at 28.)[6] The district court itself expressly noted that "it may be necessary to revisit the question of [the University's] waiver of Eleventh Amendment immunity" if it were to determine "that Fujitsu's affirmative defenses are not supported by the evidence or are otherwise insufficient as a matter of law." *Competitive Techs.*, 286 F. Supp. 2d at 1139-40 n.15. Until the district court resolves the issue of whether to dismiss some or all of Fujitsu's affirmative defenses, the University's entitlement to Eleventh Amendment sovereign immunity has not been "conclusively determine[d]."

Under such circumstances, we do not have jurisdiction over the district court's order under the *Cohen* collateral order doctrine. *See, e.g., Swint v. Chambers County Comm'n*, 514 U.S. 35, 42 (1995). In *Swint*, the Supreme Court noted that "[t]he District Court planned to reconsider its ruling on [a] summary judgment motion before the case went to the jury." *Id.* As a result, the Court held, the order was not an appealable collateral order: "The ruling thus fails the *Cohen* test, which 'disallow[s] appeal from any decision which is tentative, informal or incomplete.'" *Id.* (quoting *Cohen*, 337 U.S. at 546) (alteration in original). Similarly, in *Coopers &*

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[6] Fujitsu also noted that, if the district court were to hold that any of Fujitsu's affirmative defenses were improper, "the easy solution is a motion to strike or other motion to remove the improper defense from the case, with relatedness of any counterclaims then to be judged without reference to the removed defenses." (Br. of Defs.-Appellees at 12.)

Lybrand, the Supreme Court refused to apply the collateral order doctrine in part because the "order [wa]s subject to revision in the District Court." 437 U.S. at 469. Our sister circuits have also held that the *Cohen* collateral order doctrine does not apply when the district court has expressly indicated that its decision is subject to reconsideration:

> [I]n order to meet the requirements of the first *Cohen* prong, the matter must have been finally disposed of so that its decision is not "tentative, informal or incomplete." While there is no simple formula to define finality, an order expressly subject to future reconsideration by the issuing court is generally thought to be nonappealable.

In re "Agent Orange" Prod. Liab. Litig., 745 F.2d 161, 163-64 (2d Cir. 1984) (quoting *Cohen*, 337 U.S. at 546) (citations omitted); *see also, e.g., Metro Servs. Inc. v. Wiggins*, 158 F.3d 162, 165 (2d Cir. 1998) ("Among other things, the requirement of finality ensures that appellate court resources are not dissipated on appeals which, in the fullness of time, are rendered unnecessary by the district court's revision of its own early rulings."); *Lusardi v. Xerox Corp.*, 747 F.2d 174, 177 (3d Cir. 1984) ("[T]he conditional class certification here fails to meet the first prong of the *Cohen* rule, because it is subject to revision by the district court."); 15A Charles Alan Wright et al., *Federal Practice and Procedure* § 3911.1, at 372 (2d ed. 1992) ("Even if an order has been made, there is little justification for immediate appellate intrusion so long as there is a plain prospect that the trial court itself may alter the challenged ruling.").[7] Thus, because the district court's decision in its order is subject to reconsideration, we do not

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[7] *But cf. Microchip Tech. Inc. v. U.S. Philips Corp.*, 367 F.3d 1350, 1355 (Fed. Cir. 2004) (holding that section 16 of the Federal Arbitration Act, 9 U.S.C. § 16 (2000), "allows for appeal of orders denying motions to compel arbitration even when the issue of arbitrability has not been finally decided").

have jurisdiction over the order under the *Cohen* collateral order doctrine.

Considering the issue of waiver at this stage of the proceeding would be particularly inappropriate because the issues remaining for the district court to decide—the propriety of the affirmative defenses—are themselves intimately bound up with the merits. *Cf. Coopers & Lybrand*, 437 U.S. at 469 (holding that issues that are "enmeshed in the factual and legal issues comprising the plaintiffs cause of action" are not appealable under the *Cohen* collateral order doctrine (quoting *Mercantile Nat'l Bank v. Langdeau*, 371 U.S. 555, 558 (1963))); *Cohen*, 337 U.S. at 546 (requiring collateral orders to be "not of such an interlocutory nature as to affect, or to be affected by, decision of the merits of th[e] case").

Given our disposition, we do not decide whether the affirmative defenses and counterclaims should be dismissed on the merits.

CONCLUSION

For the foregoing reasons, we dismiss this appeal for lack of jurisdiction.

DISMISSED

COSTS

No costs.

APPENDIX B

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

03-1380

COMPETITIVE TECHNOLOGIES, INC.,
Plaintiff,

and

BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS,
Plaintiff-Appellant,

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FUJITSU, LIMITED and FUJITSU HITACHI PLASMA DISPLAY LIMITED,
Defendants-Appellees,

and

FUJITSU AMERICA, INC., FUJITSU GENERAL AMERICA CORP., FUJITSU GENERAL LIMITED, and FUJITSU MICROELECTRONICS, INC.,
Defendants.

Morgan Chu, Irell & Manella LLP, of Los Angeles, California, filed a combined petition for rehearing and rehearing en banc for plaintiff-appellant. With him on the petition were *Joseph M. Lipner* and *Perry Goldberg*.

Karen L. Hagberg, Morrison & Foerster LLP, of New York, New York, filed a response to the petition for defendants-appellees. With her on the response were *Preston Moore* and *Jun Tsutsumi*.

Appealed from: United States District Court for the Northern District of California

Magistrate Judge Joseph C. Spero

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

[Filed Jan. 3, 2005]

03-1380

COMPETITIVE TECHNOLOGIES, INC.,
Plaintiff,

and

BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS,
Plaintiff-Appellant,

v.

FUJITSU LIMITED and FUJITSU HITACHI PLASMA DISPLAY LIMITED,
Defendants-Appellees,

and

FUJITSU AMERICA, INC., FUJITSU GENERAL AMERICA CORP., FUJITSU GENERAL LIMITED, and FUJITSU MICROELECTRONICS, INC.,
Defendants.

ON PETITION FOR REHEARING

Before MAYER,* GAJARSA, and DYK, *Circuit Judges*.

DYK, *Circuit Judge*.

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* Judge Haldane Robert Mayer vacated the position of Chief Judge on December 24, 2004.

ORDER

The Board of Trustees of the University of Illinois (the "University") petitions for rehearing of our earlier decision dismissing the University's appeal for lack of jurisdiction. We deny the petition.[1]

The University urges that our decision is contrary to the Fifth Circuit decision in *Sherwinski v. Peterson*, 98 F.3d 849 (5th Cir. 1996). We disagree. In *Sherwinski*, the district court denied the motion to dismiss by the Texas Department of Criminal Justice (the "Department"), stating that "'[u]ntil the factual and legal basis of the case has been further developed, no defendants will be dismissed.'" *Id.* at 851 (alteration in original). The Fifth Circuit noted that, although the district court's order did not expressly find that the Department was not immune from suit, "the end result is the same" because the Department did not receive the dismissal to which it was entitled. *Id.* Thus, *Sherwinski* is not a case in which the Eleventh Amendment immunity issue itself was expressly left open to reconsideration by the district court, as in this case; rather, the district court in *Sherwinski* declined to recognize the Department's immunity defense and refused to dismiss.

Second, the University urges that the Second Circuit decision in *In re "Agent Orange" Product Liability Litigation*, 745 F.2d 161 (2d Cir. 1984), on which we relied, *see Competitive Techs.. Inc. v. Fujitsu Ltd.*, 374 F.3d 1098, 1104 (Fed. Cir. 2004), is no longer good law. While aspects of *Agent Orange* have been called into question by later decisions of the Second and Ninth Circuits, *see Dibble v. Fenimore*, 339 F.3d 120, 124 (2d Cir. 2003); *Lutz v. Sec'y of the Air Force*, 944 F.2d 1477; 1481-82 (9th Cir. 1991), those

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[1] Contrary to the response by Fujitsu Limited and Fujitsu Hitachi Plasma Display Limited (collectively, "Fujitsu") to the University's petition for rehearing (*see* Response of Defendants-Appellees at 4-5), we have not decided any aspect of the sovereign immunity dispute.

later decisions did not call into question those portions of *Agent Orange* on which we relied, *see Competitive Techs.*, 374 F.3d at 1104. Neither of the later decisions held or suggested that a tentative decision of the district court on immunity grounds, expressly subject to further consideration because of unresolved issues in the case, meets the first prong of the *Cohen* test. *See Cohen v. Beneficial Indus. Loan Corp.*, 337 U.S. 541, 546-47 (1949). Indeed, both *Dibble* and *Lutz* expressly distinguished *Agent Orange* under the first prong of *Cohen*. In *Lutz*, the court stated:

> In *Agent Orange* the district court had expressly stated that its order was "tentative" and that the government could "renew its motion to dismiss at any time before or during trial as further evidence and legal developments suggest." 745 F.2d at 164. Here, by contrast, the district court appears to have determined conclusively the question of whether the defendants' actions were "incident to military service," thus meeting the first prong.

944 F.2d at 1481. Similarly, the court in *Dibble* noted that "the order appealed from in *Agent Orange* was 'tentative' in its wording, thus raising doubt whether it 'conclusively determined' the question of immunity." 339 F.3d at 124. As we have held, the decisions of the Supreme Court in *Coopers & Lybrand v. Livesay*, 437 U.S. 463 (1978), and *Swint v. Chambers County Commission*, 514 U.S. 35 (1995), which was decided after *Puerto Rico Aqueduct & Sewer Authority v. Metcalf & Eddy, Inc.*, 506 U.S. 139 (1993), make clear that a non-final resolution does not satisfy the *Cohen* test. Thus, the application of the first prong of *Cohen* in *Agent Orange* has not been undermined by subsequent decisions of the Supreme Court or other courts of appeals.

Accordingly,

IT IS ORDERED THAT:

The Petition for Rehearing is denied.

Jan. 3, 2005
Date

FOR THE COURT

/s/ Timothy B. Dyk
TIMOTHY B. DYK
Circuit Judge

APPENDIX C

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

[Filed Feb. 24, 2003]

No. C-02-1673 JCS

COMPETITIVE TECHNOLOGIES, *et al.*,
Plaintiff(s),

v.

FUJITSU LIMITED, *et al.*,
Defendant(s).

CORRECTED ORDER GRANTING IN PART AND DENYING IN PART MOTIONS BY COMPETITIVE TECHNOLOGIES AND UI AND DENYING AS MOOT FUJITSU'S CONDITIONAL CROSS-MOTION
[Docket Nos. 44, 162, and 210]

I. INTRODUCTION

On Friday, December 20, 2002, at 9:30 a.m., the following motions came on for hearing:

- Competitive Technologies' Motion To Dismiss Under Federal Rules Of Civil Procedure 12(b)(6) and 12(b)(7)[1];
- The University of Illinois'

  (1) Motion To Dismiss Counterclaims 5-13 Pursuant To Rule 12(b)(1) And/Or 12(b)(6);

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[1] The Court assumes that the reference to Rule 12(6)(7) in the title of this motion is a typographical error and that the motion is brought pursuant to Rule 12(b)(6) and 12(b)(1).

(2) Special Motion To Strike Counterclaims 10-13 Pursuant To CCCP § 425.16; And

(3) Motion To Strike The Tenth Affirmative Defense Pursuant To Rule 12(f);

Fujitsu Limited's and Fujitsu Hitachi Plasma Display Limited's Conditional Cross-Motion To Set A Schedule For A Probability Showing Pursuant To Cal. Code. Civ. Proc. § 425.16(6).[2]

For the reasons stated below, the UI Motion and the Competitive Motion are GRANTED in part and DENIED in part. The Fujitsu Conditional Cross-Motion is DENIED as moot.

II. BACKGROUND

A. *Facts*[3]

This case involves two patents related to an electronic circuit for plasma display panels ("PDPs")—U.S. Patent No.s 4,866,349 ("the '349 Patent') and 5,081,400 ("the '400 Patent'). The '349 Patent, entitled "Power Efficient Sustain Drivers and Address Drivers for Plasma Panel," was issued to UI as assignee on September 12, 1989 and lists as inventors

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[2] Hereinafter, the motions listed above will be referred to as "the Competitive Motion," "the UI Motion" and the "Fujitsu Conditional Cross Motion," respectively.

[3] The parties agreed at oral argument that they have no objection to the Court taking judicial notice of any of the documents that were attached to the following requests for judicial notice: 1) Competitive's Request For Judicial Notice, filed June 28, 2002 [Docket No. 46]; 2) Fujitsu's Request For Judicial Notice, filed August 30, 2002, in support of its consolidated opposition to Competitive's Motion To Dismiss [Docket No. 82]; 3) UI's Request For Judicial Notice,. filed October 18, 2002, in support of UI's Motion To Dismiss [Docket No. 164]; 4) UI's Request For Judicial Notice, filed November 19, 2002, in support of UI's Reply [Docket No. 244]. Accordingly, the Court takes judicial notice of all of those documents, pursuant to F. R. Evid. 201.

Larry J. Weber, Kevin W. Warren and Mark B. Wood. Exh. A to Amended Complaint For Patent Infringement ("Amended Complaint"). The '400 Patent, also entitled "Power Efficient Sustain Drivers and Address Drivers for Plasma Panel," was issued to UI as assignee on January 14, 1992 and lists as inventors the same three individuals. Exh. B to Amended Complaint.

In 1985, UI entered into a Servicing Agreement ("the 1985 Servicing Agreement") with University Patents, Inc. ("UPI") granting UPI exclusive authority as UI's licensing agent. See Servicing Agreement, Exh. C to Complaint filed in International Trade Commission ("ITC Complaint"), attached as Exh. 5 to The University of Illinois' Request For Judicial Notice, filed October 18, 2002 [docket no. 164]; *see also* Amended Complaint For Patent Infringement ("Amended Complaint") at ¶ 13. UPI changed its name to Competitive Technologies, Inc. in 1994. Exh. A to ITC Complaint, attached as Exh. 5 to The University of Illinois' Request For Judicial Notice, filed October 18, 2002 [docket no. 164]; *see also* Amended Complaint at ¶ 13.

In 1995, Competitive and Matsushita Electrical Industrial Company, Ltd. ("Matsushita") entered into a non-exclusive licensing agreement for the '349 and '400 Patents, among others. Matsushita Licensing Agreement, Exh. A to Declaration of Steven W. Richeson In Support Of Counterclaimants' Consolidated Opposition To Competitive Technologies, Inc.'s Motions To Dismiss ("Richeson Declaration").[4] In addition, in 1997, Matsushita and Competitive

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[4] Although Fujitsu did not request that the Court take judicial notice of the 1995 agreement, the Court takes judicial notice of the existence of this document—though not the truth of any assertion contained in that agreement—pursuant to Fed. R. Evid. 201(b)(2). *See United States v. Wagner*, 19 Fed. Appx. 542, 543 n. 1 (holding that judicial notice of manual was proper under Fed. R. Evid. 201(b) but that court could not take judicial notice of truth of contents of that document because it contained disputed

entered into a Support Agreement under which Competitive agreed to pay Matsushita 20% of any royalty income Competitive received from "any licensing and/or sale of PDP Patents" for which Matsushita obtained a Japanese patent. Support Agreement, Exh. B to Richeson Decl.[5]

Beginning in 1995 and continuing until 1999, Competitive also engaged in licensing negotiations for the '349 and '400 Patents with Fujitsu. Defendants' Amended Answer To Amended Complaint And Counterclaims ("Amended Answer") at ¶¶ 48, 55. Some of these negotiations were conducted by Competitive's "agent and affiliate in Japan," Innovation Partners International, Inc. Amended Answer at ¶ 98. According to Fujitsu, during the course of these negotiations, Competitive revealed to Fujitsu its licensing agreement with Matsushita but did not disclose the existence of the 1997 Support Agreement. Amended Answer at ¶ 52. Fujitsu also alleges that during the course of its negotiations with Competitive, Competitive revealed information to Matsushita regarding the pendency and timing of its negotiations with Fujitsu, thereby giving Matsushita "a competitive advantage" vis-a-vis Fujitsu. Amended Answer at ¶ 87. The negotiations between Competitive and Fujitsu were unsuccessful.

In August, 2000, Matsushita and Fujitsu entered into a "comprehensive cross-license . . . concerning PDP patents." Amended Answer at ¶ 49. The purpose of this cross-license

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facts). The Court notes that neither Competitive nor UI objected to either the authenticity of this document or to the Court considering the document in these motions.

[5] Again, the Court takes judicial notice of the existence of the 1997 agreement pursuant to Fed. R. Evid. 201(b)(2), even though Fujitsu did not include this document in any of the requests for judicial notice it filed in support of its briefs on the Motions addressed in this Order. Neither Competitive nor UI objected to the authenticity of this document or to its consideration by the Court.

was to achieve "'patent peace' between the two companies." *Id.* Fujitsu alleges that, had it been aware of the 1997 Support Agreement between Competitive and Matsushita, it would not have entered into the cross-license with Matsushita without "addressing Matsushita's interest in the '349 and '400 patents." Amended Answer at ¶ 54.

In September, 2002, (well after litigation of this action had commenced), UI and Competitive amended the Servicing Agreement. See Exh. A to Second Declaration of Reynaldo C. Barcelo in Support of the University's Opposition and Conditional Cross-Motion ("Second Barcelo Decl.") [Docket No. 127].[6] Pursuant to the Amended Servicing Agreement, Competitive's rights in the '349 and '400 Patents were terminated and reverted to UI. *Id.* Further, Competitive assigned to Ul "any and all rights it may have to bring and maintain suit for past infringement." *Id.*

B. *Procedural Background*

1. The ITC Proceeding and the Illinois Action

On December 21, 2000, UI and Competitive filed an action in federal district court in the Central District of Illinois against the Fujitsu defendants, alleging infringement of the '349 and '400 Patents ("the Illinois action"). Two days later, on December 23, 2000, Competitive and the University lodged a complaint with the International Trade Commission ("ITC"), alleging that Fujitsu violated section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, by importing goods that infringed the same patents. *In the Matter of Certain Plasma Display Panels, Plasma Panel Components, and Products Containing Same*, ITC Investigation No. 337-TA-445. On February 2, 2001, the district court stayed the Illinois action pending resolution of the claims pending before the ITC. *See*

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[6] The Court takes judicial notice of the existence of the Amended Servicing Agreement, pursuant to F. R. Evid. 201(b).

February 2, 2001 Order Granting Motion For A Mandatory Stay Provided By Statute.

The ITC initiated an investigation on January 22, 2001. Some discovery was conducted. Amended Answer at ¶ 63. On June 26, 2001, Competitive and UI withdrew their complaint before the ITC. *Id.* As a result, on September 25, 2001, the stay in the Illinois action was lifted.

After the stay was lifted in the Illinois action, Fujitsu filed four motions in that action: 1) a motion to dismiss for lack of personal jurisdiction; 2) a motion to dismiss for improper venue; 3) a motion seeking transfer to the Northern District of California; 3) a motion to dismiss UI for lack of standing. The district court granted Fujitsu's motion to transfer on April 2, 2002 and the Illinois action was transferred to this Court. The court did not rule on the remaining three motions.[7]

2. The Delaware Action and the JPML Petition

On September 10, 2001, Fujitsu brought an action against Competitive and another entity, Plasmaco, in federal district court in Delaware ("the Delaware action"), asserting claims related to the '349 and '400 Patents. Competitive brought motions to dismiss pursuant to Fed. R. Civ. P. 12(b)(6), to consolidate the Delaware action with the Illinois action pursuant to 28 U.S.C. § 1404(a), or to stay the Delaware action pending resolution of the Delaware action. Similarly, Plasmaco brought a motion to dismiss under Fed. R. Civ. P. 12(b)(6). Competitive also petitioned the Judicial Panel on

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[7] After transfer to this Court, Fujitsu withdrew its motion to dismiss for lack of personal jurisdiction. *See* May 21, 2002 Stipulated Order [Docket No. 21]. Subsequently, this Court denied as moot the motion to dismiss for lack of standing. See November 19, 2002 Stipulated Order [Docket No. 236]. Because Competitive had assigned all of its rights to UI, Competitive's infringement claims were dismissed, as were Fujitsu's first five counterclaims against Competitive. *See* November 19, 2002 Order [Docket No. 242].

Multidistrict Litigation ("JPML") to consolidate the Illinois and the Delaware actions under 28 U.S.C. § 1407(a).

The JPML denied the petition to consolidate on April 16, 2002. On April 19, 2002, the district court in Delaware stayed the Delaware action pending resolution of the action in this Court. On May 22, 2002, Fujitsu filed a notice of dismissal pursuant to Fed. R. Civ. P. 41(a). On the same day, Fujitsu filed its answer in this Court, asserting as counterclaims against Competitive the same claims as had been asserted in the Delaware action. Competitive brought a motion seeking to vacate Fujitsu's voluntary dismissal in the Delaware action on August 23, 2002. That motion was denied on August 30, 2002, and the Delaware case was closed.

C. *Fujitsu's Counterclaims*

Fujitsu asserted thirteen counterclaims against Competitive and UI in this action. The counterclaims are the same as to both UI and Competitive.[8] Fujitsu has asserted the following counterclaims:

First Counterclaim:	Claim for declaratory judgment re invalidity of '349 Patent claims;
Second Counterclaim:	Claim for declaratory judgment re non-infringement of '349 Patent claims;
Third Counterclaim:	Claim for declaratory judgment re invalidity of '400 Patent claims;
Fourth Counterclaim:	Claim for declaratory judgment re non-infringement of '400 Patent claims;

[8] As noted above, the first five counterclaims, for declaratory relief, were dismissed as to Competitive when Competitive's patent infringement claims were dismissed. *See* 11/19/02 Order.

Fifth Counterclaim:	Claim for declaratory judgement re unenforceability of '349/'400 Patents;
Sixth Counterclaim:	Breach of confidentiality based on disclosure of information concerning "pendency and timing" of licensing negotiations between Competitive and Fujitsu;
Seventh Counterclaim:	Misappropriation of trade secrets based on disclosure of information "concerning the existence, status, and/or substance of the confidential business discussions" between Fujitsu and Competitive;
Eighth Counterclaim:	Fraud based on allegedly intentional concealment of 1997 Support Agreement between Competitive and Matsushita, which gave Matsushita a "significant financial stake in the '349 and '400 patents" and on representation that Matsushita was "simply a non-exclusive licensee of the '349 patent and the '400 patent";
Ninth Counterclaim:	Negligent misrepresentation based on same alleged misrepresentations as Eighth Counterclaim;
Tenth Counterclaim:	Unfair competition re '349 Patent based on filing of patent infringement complaint before the ITC that was allegedly "baseless" and "without merit";

Eleventh Counterclaim:	Unfair competition re '400 Patent based on filing of patent infringement complaint before the ITC that was allegedly "baseless" and "without merit";
Twelfth Counterclaim:	Abuse of process re '349 Patent based on initiation of ITC proceeding, knowing '349 Patent was invalid and not infringed, for improper purposes, including to obtain a quick settlement and discovery through the ITC proceeding;
Thirteenth Counterclaim:	Abuse of process re '400 Patent based on initiation of ITC proceeding, knowing '349 Patent was invalid and not infringed, for improper purposes, including to obtain a quick settlement and discovery through the ITC proceeding.

D. *The Motions*

1. Competitive's Motion

In its Motion, Competitive seeks dismissal of Counterclaims Six through Thirteen. First, Competitive asserts that this Court does not have supplemental subject matter jurisdiction over these counterclaims because they are not sufficiently related to UI's patent infringement claims. Competitive argues further that even if the Court *could* exercise supplemental jurisdiction over these counterclaims, it should decline to do so for a variety of reasons.

Second, Competitive asserts that Fujitsu fails to state a claim under Fed. R. Civ. P. 12(b)(6) as to Counterclaims Six through Thirteen. In particular, Competitive makes the following arguments: 1) Fujitsu fails to state a claim for

breach of confidentiality (Counterclaim Six) because Fujitsu does not allege facts showing a duty on the part of Competitive to maintain confidentiality; 2) Fujitsu fails to state a claim for misappropriation of trade secrets (Counterclaim Seven) because Fujitsu has alleged no facts showing the existence of any trade secret; 3) Fujitsu fails to state a claim for fraudulent misrepresentation (Counterclaims Eight) because it has not alleged the claim with particularity and has not alleged either that the misrepresentation was made for the purpose of inducing Fujitsu to act on it or that Fujitsu was damaged as a result of its reliance on the alleged misrepresentation; 4) Fujitsu fails to state a claim for negligent misrepresentation (Counterclaim Nine) because Fujitsu does not allege that the misrepresentations were made for the guidance of Fujitsu or that Fujitsu relied on the statements, and because Competitive owed no legal duty to Fujitsu to avoid wrongdoing; and 5) Fujitsu fails to state a claim for unfair competition and abuse of process (Counterclaims Ten through Thirteen) based on the *Noerr-Pennington* doctrine, federal preemption and because Fujitsu has alleged insufficient facts to state a claim for unfair competition or abuse of process.

In its Opposition, Fujitsu argues that this Court has jurisdiction over Counterclaims Six through Thirteen on the basis of diversity, and therefore, that Competitive's arguments concerning supplemental jurisdiction are superfluous. In response to Competitive's assertion that Fujitsu fails to state a claim as to Counterclaims Six through Thirteen, Fujitsu makes the following arguments: 1) Fujitsu has stated a claim for breach of confidentiality (Counterclaim Six) because there was an implied-in-fact contract between Competitive and Fujitsu, even if there was no written contract, under which their licensing negotiations were not to be revealed to third parties; 2) Fujitsu has stated a claim for misappropriation of trade secrets (Counterclaim Seven) because Fujitsu has alleged sufficient facts to establish that

the pendency and substance of negotiations between Competitive and Fujitsu constituted a trade secret; 3) Fujitsu has alleged sufficient facts to satisfy all of the required elements for intentional and negligent misrepresentation (Counterclaims Eight and Nine); and 4) Fujitsu has stated claims for unfair competition and abuse of process (Counterclaims Ten through Thirteen) because there is no federal preemption, the *Noerr-Pennington* doctrine does not apply, and Fujitsu has alleged sufficient facts to state claims for unfair competition and abuse of process.

In its Reply, Competitive asserts that there is no jurisdiction over Fujitsu's Counterclaims Six through Thirteen because this Court does not have personal jurisdiction over Competitive as to those claims and venue in this Court is improper. Competitive argues further that the Court should decline to exercise supplemental jurisdiction over these counterclaims.

2. UI's Motion

UI raises many of the issues that are raised in the Competitive Motion, as well as a number of additional issues. First, UI asserts that it is an arm of the state and therefore, that it enjoys Eleventh Amendment immunity. UI argues further that because Counterclaims Six through Thirteen are permissive rather than compulsory, UI has not waived Eleventh Amendment immunity as to these counterclaims by asserting patent infringement claims against Fujitsu.[9] Second, UI asserts that there is no subject matter jurisdiction over Counterclaims Six through Thirteen. In particular, UI asserts that: 1) there is no diversity jurisdiction because UI is not a citizen for the purposes of diversity; and 2) there is no supplemental jurisdiction because these counterclaims do not arise out of the same "case or controversy" as UI's claims, as

[9] UI concedes in its Motion that it has waived sovereign immunity as to Counterclaims One through Five. UI Motions at 6.

required under 28 U.S.C. § 1367(a). UI argues further that even if these counterclaims do arise out of the same "case or controversy," this Court should decline to exercise jurisdiction over these counterclaims pursuant to 28 U.S.C. § 1367(c), on the basis that they are likely to "substantially predominate" over the patent infringement claims. Third, UI asserts that Counterclaims Six through Thirteen should be dismissed for failure to state a claim, asserting many of the same arguments that are asserted by Competitive. Fourth, UI argues that Counterclaim Five (seeking a declaration that two patents are unenforceable based on patent misuse) should be dismissed and Fujitsu's Tenth Affirmative Defense (inequitable conduct) should be stricken under the Federal Circuit's decision in *Aptix Corp. v. Quickturn Design Systems*, Inc., 269 F.3d 1369 (Fed. Cir. 2001). Finally, UI asserts that Counterclaims Ten through Thirteen are barred by California state law privileges, including the California anti-SLAPP statute.

In its Opposition, Fujitsu makes the following arguments: 1) UI is not an arm of the state for the purposes of Eleventh Amendment immunity, and even if it is, UI has waived sovereign immunity as to Fujitsu's counterclaims; 2) UI is a citizen for the purposes of diversity jurisdiction and therefore, there is diversity jurisdiction over all of the counterclaims; 3) even if there is no diversity jurisdiction, the Court may exercise supplemental jurisdiction over Counterclaims Six through Thirteen; 4) Counterclaims Six through Thirteen properly state claims; 5) California state law privileges do not apply to Counterclaims Ten through Thirteen, and even if they did, those privilege do not bar these counterclaims; and 6) neither the Fifth Counterclaim nor the Tenth Affirmative Defense are barred by the Federal Circuit's decision in *Aptix v Quickturn*, 269 F. 3d 1369 (Fed. Cir. 2001).

3. Fujitsu's Conditional Cross-Motion

In its Conditional Cross-Motion, Fujitsu argues that if the Court determines that California's anti-SLAPP statute applies, the Court should delay setting a probability hearing to allow for discovery. UI, on the other hand, asserts that if the anti-SLAPP statute applies, a probability determination can be made without waiting for any discovery to be completed.

III. ANALYSIS

A. *UI's Entitlement to Eleventh Amendment Immunity*

1. Legal Standard

The Eleventh Amendment provides as follows:

> The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.

U.S. Const. amend. XI. The Supreme Court has held that the Eleventh Amendment stands for the proposition that "federal jurisdiction over suits against unconsenting States was not contemplated by the Constitution when establishing the judicial power of the United States." *Seminole Tribe v. Florida*, 517 U.S. 44, 54 (1986) (quotation omitted). To qualify for Eleventh Amendment immunity, a defendant must establish that it is both an arm of the state and that its right to immunity has neither been waived by the state nor abrogated by Congress.

a. *Arm of the State*

The Eleventh Amendment protects the state and its agencies from being sued, but does not protect municipalities and other political subdivisions of the state. *Mt. Healthy City Sch. Dist. Bd. of Educ. v. Doyle*; 429 U.S. 274, 280 (1977). To determine whether or not an entity is an arm of the state

for the purposes of the Eleventh Amendment, courts look to a number of factors, the most important of which is "whether the named plaintiff has such independent status that a judgment against the defendant would not impact the state treasury." *Jackson v. Hayakawa*, 682 F.2d 1344, 1349 (9th Cir. 1982). Other factors include "performance by the entity of an essential government function, its ability to sue or be sued, its power to take property in its own name or in the name of the state, and its corporate status." *Mukaida v. Hawaii*, 159 F. Supp. 2d 1211, 1221 (D. Haw. 2001) (citing to *Jackson*, 682 F.2d at 1349) (holding that the University of Hawai'i was an arm of the state for purposes of Eleventh Amendment).

The "facts" which form the basis of the immunity analysis are found in state law. To determine whether "a particular state agency has the same kind of independent status as a county or is instead an arm of the State, and therefore 'one of the United States,' within the meaning of the Eleventh Amendment . . . [the court must consider] the provisions of state law that define the agency's character." *Regents of the Univ. of Cal. v. Doe*, 519 U.S. 425, 429 n.5 (1997); *see also Doe v. Lawrence Livermore Nat'l Lab.*, 65 F. 3d 771, 777 (9th Cir. 1995) (noting in dissent that by focusing on who is legally obligated rather than on who actually pays, the court can resolve the threshold question of Eleventh Amendment immunity based on the pleadings and the state statutes), *rev'd* 519 U.S. 425 (1997) (citing to dissent with approval). Thus, for example, when determining whether or not a judgment will be satisfied from state funds, the Supreme Court instructs that the court is to ask whether, under state law, a judgment would impose *legal liability* on the state. *Id.* The Court in *Doe* held that it was irrelevant to Eleventh Amendment immunity analysis that the judgment might not actually be paid by the state, for example, if the judgment would be covered by insurance proceeds or there was a right to indemnification. *Id.* at 431.

b. *Waiver*

A defendant that establishes that it is an arm of the state is entitled to sovereign immunity unless one of two exceptions applies. First, Congress may explicitly abrogate Eleventh Amendment sovereign immunity in exercising its power to enforce the Fourteenth Amendment.[10] *College Savings Bank v. Fla. Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 669 (1999). Second, a state may waive its sovereign immunity by consenting to suit. *Id.* Such a waiver may be based on a "clear declaration" by the state that it consents to federal jurisdiction or may be based on the state's conduct. *Id.* at 675-676; *see also In re Bliemaster*, 296 F.3d 858, 860 (9th Cir. 2002).

Waiver based on conduct is found in a variety of situations. First, it is well-established that sovereign immunity is waived where the state invokes the jurisdiction of the federal courts by filing claims in federal court *See Lapides v. Bd. of Regents of the Univ. Sys. of Ga.*, __ U.S. __ (2002); 122 S. Ct. 1640, 1643 (holding that for the purposes of waiver of Eleventh Amendment immunity, a state invokes the jurisdiction of a federal court—and thus waives immunity—not only when it files claims in federal court but also when it removes to federal court claims that have been filed against it in state court). Where a state invokes the jurisdiction of the federal courts, it waives sovereign immunity not only as to the state's claims, but also as to counterclaims that arise out of the same transaction or occurrence, that is, compulsory counterclaims. *In re Lazar*, 237 F.3d 967, 978 (9th Cir. 2001) (citing to cases decided by the Fourth, Seventh and Tenth Circuits on this issue and to Fed. R Civ. P. 13(a)); *see also Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931 (Fed. Cir. 1993) (holding in patent infringement action that state's sovereign immunity

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[10] Fujitsu does not argue that Congress has abrogated Eleventh Amendment immunity as to Counterclaims Six through Thirteen.

was waived as to its own patent infringement claims and compulsory counterclaims brought against it but not as to permissive counterclaims).[11] Even where the state has not affirmatively invoked the jurisdiction of the federal courts, its participation in litigation brought against it may result in waiver if the state's participation is incompatible with an intent to preserve its sovereign immunity. *In re Bliemaster*, 296 F.3d at 860.

2. Is UI an Arm of the State for Purposes of Sovereign Immunity?

UI asserts that it is an arm of the state for the purposes of sovereign immunity, relying on Seventh Circuit cases that have reached that conclusion. *See Cannon v. Univ of Health Scis./The Chicago Med. Sch.*, 710 F.2d 351, 356 (7th Cir. 1983) (holding that claims against the Board of Trustees of the University of Illinois were barred by the Eleventh Amendment); *Kroll v. Bd of Trs of the Univ. of Ill.*, 934 F.2d 904, 908 (7th Cir. 1991) (citing to *Cannon* and holding that Board of Trustees of the University of Illinois is a state agency and therefore subject to Eleventh Amendment immunity); *see also Loeffler v Univ. of Ill. at Chicago*, 36 F. Supp. 2d 1058 (N. D. III. 1999) (citing to *Cannon* and holding that

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[11] The Ninth Circuit has not reached the question of whether the scope of the waiver with respect to compulsory counterclaims is limited to recoupment of damages obtained by the state or goes further to allow an affirmative award of damages against the state. *Id.* However, the Federal Circuit and the Seventh Circuit have held that the waiver extends only to the extent of defeating the state's claim. *See In re Lazar*, 237 at F.3d at 978 (citing to *Jones v. Yorke (in re Friendship Medical Center Ltd)*, 710 F.2d 1297, 1301 (7th Cir. 1983); *Genentech*, 998 F.2d at 946. In addition, some district courts in the Ninth Circuit have concluded that the waiver would only allow for recoupment. *See, e.g., California Independent System Operator Corp. v. Reliant Energy Services, Inc.*, 181 F. Supp. 2d 1111, 1124 (E.D. Cal. 2001) (stating in dicta that any possible waiver of sovereign immunity would be limited to "compulsory recoupment counterclaims").

the University if Illinois is entitled to Eleventh Amendment immunity). Fujitsu argues that these cases do not apply the "searching multi-factor analysis that is required for a proper determination of whether an entity is the State" and that if such an analysis is applied, it points to the conclusion that the University of Illinois is not an arm of the state. The Court concludes that UI is an arm of the state of Illinois.

In *Cannon*, 710 F.2d at 356, the Seventh Circuit held that UI is a state agency and therefore, entitled to Eleventh Amendment immunity. In support of this conclusion, the court cited a single state court decision, *Elliott v. Univ of Ill.*, 365 Ill. 338 (1936). The court also noted that the district court had relied on the "powers and duties" of the Board of Trustees, as set forth in chapter 144 of the Illinois Revised Statutes, currently codified at 110 ILCS § 305 ("the University of Illinois Act"), in support of its conclusion that UI was immune under the Eleventh Amendment. However, the court in *Cannon* did not explain what "powers and duties" gave rise to such a result Nor did the court conduct any analysis of its own on this question. 710 F.2d at 356. The court also concluded, without analysis or citation of any specific state law, that "because the state universities are the alter ego of the state, any damage award chargeable to university assets is an award against the state itself." *Id.* at 357.

In *Elliot* (the case on which the *Cannon* court relied), the plaintiff challenged an Illinois law, the Accountancy Act, which authorized UI to determine the qualifications for certified public accountants and administer an examination in accounting for those seeking to be designated as certified public accountants. 365 Ill. at 340. The plaintiff argued, among other things, that the Accountancy Act was invalid because it conferred ultra vires powers on UI. *Id.* at 343. The court rejected that argument:

> Much time is devoted in the argument to the contention that the powers conferred on the University in holding

> examinations and granting certificates are ultra vires. The University is not a private corporation but is an agency of the State. It was founded by an act of the Legislature approved February 28, 1867 (Smith-Hurd Ill. Stats. c. 144, § 22 et seq. and notes), as the "Illinois Industrial University." In 1885 (Smith-Hurd Ill. Stats. c. 144, § 48) its name was changed to "University of Illinois." It is maintained by interest from its permanent endowment fund arising from grants of land from the United States and by appropriations from the General Assembly. It is governed by a board of trustees elected by the people. It is managed by a corporation created by the State, *but the State retains the power of selecting trustees, and may through other agents than the trustees sell and dispose of its property or change its charter as the Legislature may direct. People v. University of Illinois*, 328 Ill. 377, 382, 157 N.E. 811. The Legislature had full power to direct the University, as the state's agent, to perform the duties enjoined upon it by the act of 1903.

Id. at 343-344 (emphasis added).

Although the language of *Elliott* supports the conclusion that UI is an arm of the state, the court in *Elliott* did not directly address the question of whether a judgment against UI would result in expenditure of state funds, which is an important consideration in determining whether an entity is entitled to Eleventh Amendment immunity. *See Jackson v. Hayakawa*, 682 F.2d at 1349. This issue is addressed in *People ex rel. Olmsted v. State of Illinois*, 328 Ill. 377 (1928).

Olmsted lends support to the conclusion that under Illinois law a judgment against the University is the same as a judgment against the state because the University is the alter ego of the state. In *Olmsted*, the court explicitly held that UI's

property is state property. *Id.* In particular, the court in *Olmsted* stated as follows:

> Does this property belong to the state? The University of Illinois was founded by an act of the Legislature approved February 28, 1867 (Pub. Laws 1867, p. 123), as the Illinois Industrial University. In 1885 (Laws 1885, p. 252), its name was changed to the University of Illinois. It is maintained by interest from its permanent endowment fund arising from grants of land from the United States and by appropriations made by the General Assembly. It is governed by a board of trustees elected by the people. Though the state has created a body corporate to control the University of Illinois, yet the state retains the power of selecting trustees, and may, through other agents than the trustees, sell and dispose of the property of the institution or change its charter as the Legislature may direct. *The property of the University of Illinois, though held by the board of trustees, belongs to the state. People v. Board of Trustees*, 283 Ill. 494, 119 N. E. 595; *Spalding v. People*, 172 Ill. 40, 49 N. E. 993; *Board of Trustees v. Champaign County*, 76 Ill. 184; *Thomas v. Industrial University*, 71 Ill. 310. While the state, through its board of trustees, is virtually a trustee of the property and funds . . . the university for the use of the people, it nevertheless has power to resume the fund and to use it for the purposes designated. *City of Chicago v. People*, 80 Ill. 384.

Id. at 382 (italics added). Under this precedent, as a matter of law, the property of UI is the property of the state. A judgment against UI, therefore, necessarily runs against state property.

Fujitsu argues that UI is not entitled to sovereign immunity because it has been held to be separate and independent from the state, citing to *People ex rel. Bd. of Trs. of Univ of Ill. v. Barrett*, 382 Ill. 321 (1943). *Barrett* does not support

Fujitsu's position. To the contrary, much of the discussion in *Barrett* supports the opposite conclusion. In *Barrett*, a dispute arose as to whether UI should be represented in pending litigation by the Attorney General of the state of Illinois or by attorneys who had been hired by UI's Board of Trustees. *Id.* at 324. The Attorney General attempted to fire two attorneys who had been hired by the Trustees. The Trustees brought a petition for mandamus seeking to compel the Auditor of Public Accounts to pay the attorneys' salaries and to prevent the Attorney General from interfering with their work. *Id.* The Court held that UI was entitled to retain its own attorneys because, "[i]n the sense that it is a department or branch of the state government, [UI] is not an agency or instrumentality of the State." *Id.* at 347. Rather, the court held, UI "[i]s a separate corporate entity, which functions as a public corporation." *Id.*

Fujitsu relies on the language quoted above in support of its argument that UI is not entitled to sovereign immunity because it is not an arm of the state. However, the court's lengthy discussion of the relationship between UI and the state leading up to its holding in *Barrett* shows that Fujitsu's reliance on this language is misplaced. In particular, the court characterizes UI as follows:

> While it is a public corporation, it was organized and exists for one specific purpose. *It is unique in that it has and can own no property in its own right. Whatever property or interest in property it acquires belongs to the State, and is held by it as trustee for the use of the State.* It has no taxing powers and no means of raising money or acquiring property, except through the operation of the university. Its power to borrow money and to issue bonds is granted and limited by the act of June 4, 1941. Ill.Rev.Stat.1941, chap. 144, par. 71 et seq. *True, it may receive donations and gifts, but whatever it may receive as such, like all other property which it*

> *acquires, it holds only as trustee for the State, the beneficial owner.* It has no power to select its own trustees or managers. This power is reserved to the State. It functions solely as an agency of the State for the purpose of the operation and administration of the university, for the State. In doing this, it functions as a corporation, separate and distinct from the State and as a public corporate entity with all the powers enumerated in the applicable statutes, or necessarily incident thereto. It has and can exercise no sovereign powers. It is no part of the State or State government. As definitely held by this court in *Spalding v. People, supra*, by establishing the university the State created an agency of its own through which it proposed to accomplish certain educational objects, and the corporate entity created for that purpose is a public corporation belonging to the class of corporations enumerated in section 80 of division I of the Criminal Code Ill.Rev Stat.1941, chap. 38, par. 214. Its contractual powers are so restricted by statute that it can create no liability or indebtedness against the State and no liability or indebtedness against itself as a corporate entity in excess of the funds in the hands of the treasurer of the. university at the time of creating such liability or indebtedness and which may be specially and properly applied to the payment of the same. Ill.Rev.Stat.1941, chap. 144, par. 28. No suit can be maintained against it which would adversely affect the rights of the State. *Schwing v. Miles*, 367 Ill. 436, 11 N.E.2d 944, 113 A.L.R. 1504.

Id. at 342-343 (emphasis added). While far from clear, this language supports the conclusion that the property of UI belongs to the state as a matter of law.

Fujitsu also argues that regardless of the holdings of the state court cases discussed above, application of the five-factor test set forth in *Jackson v. Hayakawa*, supports the

conclusion that UI should not be considered an arm of the state. 682 F.2d at 1350. The Court disagrees.

The factor that is given the greatest weight in determining whether an agency is an arm of the state for Eleventh Amendment purposes is whether or not state funds would be threatened. *Id.* As noted above, this inquiry is not a factual inquiry to determine where funds would actually come from in the event that liability were established. Rather, the court looks to whether a judgment would impose legal liability on the state. *Regents of the Univ of Cal. v. Doe*, 519 U.S. at 430-431. Moreover, the funds need not be taken "'literally out of the general treasury' so long as-they are, in fact, 'state-held funds' otherwise available to the state." *Vaughn v. Regents of the Univ. of Cal.*, 504 F. Supp. 1349, 1353 n.5 (E.D. Cal. 1981) (quoting *Wade v. Miss. Co-op Extension Service*, 424 F. Supp. 1242, 1257 (N.D. Miss. 1976)).

Here, the Court concludes that the first factor—whether or not state funds will be threatened—supports the conclusion that UI is an arm of the state. Under Illinois law, UI acts as an alter ego for the state. As noted above, the rationale in *Cannon* was that the University is an alter-ego of the state and therefore, any funds that are taken from its treasury are, by definition, state funds. This reasoning, in turn, is supported by cases decided by Illinois state courts, albeit not necessarily in the context of Eleventh immunity analysis.

Fujitsu asserts that this reasoning is circular. Essentially, the "alter ego" argument assumes the proposition to be proven: that the funds are state funds. While Fujitsu's argument has some force, it is not supported by authority and cannot withstand analysis. First, state law precedent holds that property of UI is the property of the state. This conclusion is dispositive as to the first factor in the immunity analysis: a judgment against UI is against state funds. Moreover, a number of courts, in addition to *Cannon*, have relied on the same alter-ego theory to conclude that a

university was an arm of the state. *See, e.g., Vaughn*, 504 F. Supp. at 1354 (holding that University of California is arm of the state based, in part, on fact that "although the Regents is vested with legal title to the University's property . . . all the University's property is property of the state" under the California constitution and noting that "[t]he majority of federal courts which have considered the 'alter-ego' relationship of a state university to its state have concluded that a suit against the university is a suit against the state for purposes of the Eleventh Amendment"); *Hutsell v Sayre*, 5 F.3d 996, 1002 (6th Cir. 1993) (holding that University of Kentucky was entitled to Eleventh Amendment immunity based, in part, on fact that all funds collected by the University were deemed state funds under Kentucky statute).

The Court is not persuaded by Fujitsu's assertion that UI may not be an arm of the state because it has authority under Illinois law to acquire, hold, sell, lease and convey real and personal property without state approval. *See* Fujitsu Surreply at 2 (citing to 110 ILCS §§ 305/1, 305/7d, 420/1(f)). As the court in *Barrett* made clear, UI's organizational independence from the State of Illinois as a public corporation does not preclude it from being an alter-ego of the state for the purposes of ownership.

The Court also rejects Fujitsu's assertion that UI has not established that it performs any essential governmental function—the second factor in the five-factor test. *See Jackson v. Hayakawa*, 682 F.2d at 1349. The cases that have addressed the issue have held, almost uniformly, that the provision of higher education is an essential governmental function for the purposes of Eleventh Amendment immunity analysis. *See, e.g., Hutsell*, 5 F.3d at 1002 (holding that "higher education has long been recognized as a governmental function"); *Kovats v. Rutgers*, 822 F.2d 1303, 1310 (3d Cit. 1987) (holding that Rutgers University was not an arras of the state but recognizing that "providing education

has long be recognized as a function of state government"). Similarly, this Court finds that in providing higher education, UI performs an essential governmental function.

Fujitsu is correct that UI's ability to sue and be sued points to the conclusion that UI is not an arm of the state. *See* 110 ILCS § 305/1. However, it is clear from the numerous cases that have found universities to be arms of the state notwithstanding their ability to sue and be sued, that this factor is not dispositive. *See, e.g., Kashani v. Purdue Univ.*, 813 F.2d 843, 847 (7th Cir. 1987) (holding that Purdue University was arm of the state even though it could sue and be sued); *United Carolina Bank v. Bd. of Regents of Stephen Austin State Univ.*, 665 F.2d 553, 559 (5th Cir. 1982) (holding that the university was entitled to Eleventh Amendment immunity even though it had the right to sue and be sued).

The fourth factor is whether an agency can hold property in its own name. *See Jackson v. Hayakawa*, 682 F.2d at 1349. Fujitsu cites to state laws that show UI can hold property in its own name, and UI does not appear to dispute this point. This factor points to the conclusion that UI is not entitled to Eleventh Amendment immunity. However, like the question of whether the University can sue and be sued, this factor is not dispositive.

The fifth factor is the corporate status of the entity. *Id.* Here, it is undisputed that UI is a public corporation. In light of the fact that UI is a public corporation rather than a private corporation, however, the Court does not find that this factor provides strong support for either the conclusion that UI is an arm of the state or the conclusion that it is not.

Finally, the Court rejects Fujitsu's assertion that even if UI would otherwise be entitled to Eleventh Amendment immunity, it has waived its sovereign immunity by invoking diversity jurisdiction in other actions, thus representing itself

as a citizen rather than a state.[12] While UI's conduct in this litigation could give rise to waiver (as discussed above), Fujitsu has cited to no authority in support of the proposition that UI's conduct in a separate action could result in waiver of Eleventh Amendment immunity in this action. Nor does there appear to be any such authority.

In short, applying the five-factor test articulated in *Jackson v. Hayakawa*, the Court concludes that UI is entitled to assert sovereign immunity under the Eleventh Amendment.

3. Has UI Waived Sovereign Immunity as to Counterclaims Six Through Thirteen?

UI asserts that Counterclaims Six through Thirteen are not sufficiently related to its own patent infringement claims to make them compulsory counterclaims, and therefore it has not waived sovereign immunity as to these counterclaims. Fujitsu, on the other hand, asserts that all of its counterclaims are compulsory.[13] This is the axis of the dispute: to determine

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[12] As discussed below, diversity jurisdiction can exist only if UI is a citizen and not if it is a state.

[13] Fujitsu also argues that, even if these counterclaims are not strictly compulsory, UI's waiver should extend to these claims. Fujitsu asserts that the Supreme Court's recent decision in *Lapides*, and the fact that this case involves conduct by a state beyond its own borders, supports this position. The Court is not persuaded by Fujitsu's argument. In support of its argument, Fujitsu cites to language in *Lapides* in which the Supreme Court states that it would be unfair to allow the state to contend at the same time that: 1) the judicial power of the United States extends to the case at hand; and 2) the state is entitled to sovereign immunity on the basis that the judicial power does not extend to the case at hand. 122 S. Ct at 1643. Fujitsu asserts that because the conduct here was committed outside of the state of Illinois, UI could be sued in state court in a state other than Illinois. Fujitsu argues it would be unfair to require Fujitsu to defend its patent infringement claims in federal court (where UI has waived sovereign immunity) while requiring Fujitsu to bring its counterclaims in a state court: Therefore, Fujitsu believes, the situation here is similar to the situation in *Lapides*.

There are two flaws in Fujitsu's argument. First, *Lapides* addressed a very specific set of facts that do not apply here. In particular, in *Lapides*,

whether or not the counterclaims arise out of the same transaction or occurrence as the infringement claims, should the Court consider the facts underlying Fujitsu's affirmative defenses? UI answers this question in the negative, while Fujitsu responds in the affirmative.

UI also argues that (1) even if affirmative defenses are considered, Fujitsu's counterclaims are not sufficiently related to its affirmative defenses to make them compulsory counterclaims; and (2) abuse of process claims are compulsory counterclaims only in the proceeding in which the process was alleged to have been abused. Each argument is addressed below in turn.

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the state removed an action from state court to federal court asserting that the federal court could exercise jurisdiction over the state with respect to the claims asserted in that action. 122 S. Ct. at 1642. Once in federal court, the state asserted that it was entitled to sovereign immunity as to the very claims it had removed to federal court. *Id.* The Court held that allowing the state to remove an action and then assert sovereign immunity as to the claims asserted in that action would give rise to "seriously unfair result." *Id.* at 1643. The Court held that the state could not both assert and deny federal jurisdiction. Here, the state does not seek to assert sovereign immunity as to the very same claims for which it invoked federal jurisdiction. Rather, UI is seeking to limit its waiver to counterclaims that arise out of the same transaction or occurrence. The kind of unfairness that was at issue in *Lapides* is not present here.

Further, Fujitsu's argument that waiver of sovereign immunity extends to permissive counterclaims because the conduct at issue took place outside of the state's borders is unsupported by any authority (as Fujitsu concedes). Moreover, Fujitsu does not address why this fact would support the conclusion that the holding of *In re Lazar*—where the Ninth Circuit expressly held that waiver extends only to compulsory counterclaims—would not apply. The Court does not find anything in the reasoning of *In re Lazar* that suggests that the distinction Fujitsu draws here has any significance or would give rise to a different result.

a. *Should Affirmative Defenses Be Considered?*

Rule 13(a) states that "a pleading shall state as a counterclaim any claim . . . the pleader has against any opposing party if it arises out of the same transaction or occurrence that is the subject matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction." To determine if claims arise out of the same transaction or occurrence, courts in the Ninth Circuit ask whether "the essential facts of the various claims are so logically connected that considerations of judicial economy and fairness dictate that all of the issues be resolved in one lawsuit." *Pochiro v. Prudential Ins. Co. of America*, 827 F.2d 1246, 1249 (9th Cir. 1987). "The test is a 'flexible' one taking into account all of the circumstances in light of the purposes of Rule 13(a)." *Grumman Sys. Support Corp. v. Data Gen. Corp.*, 125 F.R.D. 160, 162 (N.D. Cal. 1988) (citing *Moore v. New York Cotton Exch.*, 270 U.S. 593, 610 (1926); *Warshawsky & Co. v. Arcata Nat'l Corp.*, 552 F.2d 1257 (7th Cir. 1977)). Among the factors courts consider in determining whether the test is met is whether "the facts necessary to prove the two claims substantially overlap, [and whether] the collateral estoppel effect of . . . the first action would preclude [the claims from being brought in a later action]." *Pochiro*, 877 F.2d at 1251.

In support of its argument that affirmative defenses should not be considered, UI cites to the following language in *In re Lazar*:

> A logical relationship exists when the counterclaim arises from the same aggregate set of operative facts as the initial claim, in that the same operative facts serve as the basis of both claims or the aggregate core of facts upon which the claim rests activates additional legal rights otherwise dormant in the defendant.

237 F.3d at 978. This language, however, is ambiguous. The court does not explain whether it is using the word "claim" to

refer only to the elements to be proven by the plaintiff, or to include defenses that must be proven by a defendant.

In support of the proposition that the court should consider whether or not the counterclaims are based on the same facts as the affirmative defenses, Fujitsu cites to *Pochiro*, 827 F.2d 1246 (9th Cir. 1987). In *Pochiro*, Defendant Prudential Insurance Company sued a former employee, John Pochiro, and his wife in state court. Prudential alleged that the defendants appropriated confidential customer information obtained while Mr. Pochiro worked for Prudential, and sought to enjoin the Pochiros from using its confidential records. 827 F.2d at 1248. Subsequently, the Pochiros sued Prudential, bringing claims including defamation and abuse of process against Mr. Pochiro's former employer. *Id.* The Pochiros alleged, among other things, that Prudential had called Mr. Pochiro a "crook" and had engaged in wrongful conduct—including filing a lawsuit against him—intended to damage the Pochiros' competing insurance business. *Id.* The court of appeals held that the Pochiros' claims were properly dismissed by the district court because they were compulsory counterclaims in the action brought by Prudential. *Id.*

In reaching the conclusion that the Pochiros' claims were compulsory counterclaims, the court compared the facts underlying Prudential's claims and those underlying the Pochiros' claims. The court stated:

> In its state court action, Prudential pleaded causes of action for breach of employment contract, unfair competition, and intentional interference with business relations. The operative facts underlying these causes of action were that John Pochiro, when employed by Prudential as an agent, was given confidential records about Prudential's present and prospective policyholders. Then, after resigning from Prudential, Pochiro

failed to return the records to Prudential and instead used them in soliciting business in competition with Prudential.

Prudential argues that the operative facts underlying the Pochiros' action also revolve around the Pochiros' use of these same confidential records. We agree. Although the Pochiros' complaint is rather jumbled, their causes of action for unlawful restraint of trade, unfair business practices, intentional interference with contractual advantage, defamation, abuse of process, intentional infliction of emotional distress, and tortious breach of employment contract are bottomed on a single paragraph of factual allegations, which we quote in full:

> Commencing in December, 1982 and January-February, 1983, Prudential deliberately, maliciously, willfully and/or with gross, wanton and negligent conduct set about to substantially damage John's reputation, credibility and business; that Prudential's wrongful conduct included it doing the following acts: (1) Prudential told John's employees and/or prospective employees that John was a crook, and/or was dishonest and threatened them with litigation involvement or economic difficulty if they worked for John; (2) Prudential told insurance customers that John was a crook, dishonest, and/or unscrupulous and that if they did business with him they would suffer losses; (3) Prudential encouraged one customer to file a complaint, without justification, against John at the Arizona Insurance Commissioner; (4) Prudential used delay tactics in paying its own policyholders to prevent them from converting existing Prudential policies and doing business with John; (5) Prudential unjustifiably tried to persuade [sic] other insurance companies not to do business with John; (6) Prudential abused the process of the Arizona court system

> by bringing a lawsuit against John for the ulterior purpose of using it as a tool to dissuade persons from doing business with John; (7) Prudential told customers of John that if they did business with him they would be involved in litigation; (8) Prudential in bad faith delayed and/or failed to make payments to John under John's own insurance policy with Prudential and stopped payment on at least one such check, wrriten [sic] in favor of an ambulance service.
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> Excerpt of Record (E.R.) at 7-8. Although some of these allegations at first blush appear a bit removed from Prudential's action to enjoin the Pochiros' use of confidential records, it is undisputed that Pochiro's use of Prudential's customer records is inextricably intertwined with the facts as alleged in the Pochiros' complaint. For example, the Pochiros' allegations that Prudential called John Pochiro "a crook" relate to Prudential's litigated claim that Pochiro misappropriated confidential records.

Id. at 1250.

Pochiro does not explicitly address whether defenses should be considered in determining whether counterclaims are compulsory. However the court did construe the "transaction or occurrence" that gave rise to the state court action rather broadly: it included affirmative allegations in the federal suit that Prudential engaged in misconduct related to the claimed misappropriation.

A district court case cited by Fujitsu, *Grumman Systems Support Corp. v. Data General Corp.*, 125 F.R.D. 160 (N.D. Cal. 1988), supports the conclusion that affirmative defenses should be considered. In *Grumman*, the defendant, Data General, sued Grumman in Massachusetts for copyright infringement. *Id.* While that action was still pending, Grumman sued Data General in the Northern District of California. *Id.* Data General moved to dismiss the California action on the

basis that the claims asserted by Grumman in the California action were compulsory counterclaims in the Massachusetts action. *Id.* The court agreed. The court's conclusion in *Grumman* was based upon the fact that Grumman's claims in the California action were substantially the same as an affirmative defense asserted by Grumman in the Massachusetts action. *Id.* at 162. The court went on to hold that the claims in the California action were compulsory counterclaims even though Grumman alleged additional facts in support of its claims in the California action. *Id.*[14]

The Federal Circuit's decision in *Genentech, Inc. v. Eli Lilly and Co.*, 998 F.2d 931 (Fed. Cir. 1993), and the subsequent district court decision on remand, lends support to the conclusion reached in *Grumman*. In *Genentech*, Genentech sued Eli Lilly and the University of California in the Southern District of Indiana, seeking a declaration of non-infringement and invalidity with respect to a patent owned by the university. *Id.* at 935. In addition, Genentech asserted antitrust claims and various state law tort claims. The next day, the University and Eli Lilly brought patent infringement claims against Genentech in the Northern District of California. *Id.* The university then brought a motion to dismiss in the Southern District of Indiana based, in part, on the assertion that the declaratory judgment action was barred as to the university by Eleventh Amendment immunity. *Id.* The court agreed and dismissed the action. *Id.*

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[14] UI seems to suggest that *Pochiro* and *Grumman* do not apply here because they do not involve Eleventh Amendment immunity, which requires waiver to be strictly construed. However, UI cites to no authority which suggests that the rule announced in *In re Lazar*—that Eleventh Amendment immunity is waived as to compulsory counterclaims—carries with it some stricter test for determining whether or not a counterclaim is compulsory. Rather, the court in *In re Lazar* envisioned that the usual test for determining whether a counterclaim arises out of the same transaction or occurrence should be applied in cases involving Eleventh Amendment immunity.

On appeal, the Federal Circuit addressed the question of whether the university was entitled to Eleventh Amendment immunity as to the antitrust and state law tort claims. *Id.* at 944. The Federal Circuit held that, by asserting patent infringement claims against Genentech, the university had waived its Eleventh Amendment immunity as to Genentech's defenses and, for the purposes of recoupment, as to all compulsory counterclaims. *Id.* at 947. The Federal Circuit remanded to the district court to determine whether or not Genentech's claims constituted compulsory counterclaims. *Id.*

On remand, the district court addressed whether two of the claims were compulsory. *In re Recombinant DNA Tech. Patent and Contract Litig.*, 874 F. Supp. 904 (S.D. Ind. 1994). First, the district court addressed whether a third party beneficiary claim was a compulsory counterclaim. *Id.* at 920. This claim was based on Genentech's allegation that it was a third-party beneficiary of an Institutional Patent Agreement ("IPA") between the university and the Department of Health, Education and Welfare ("HEW"), which had provided funding for research related to the patent at issue. *Id.* at 907. Under the IPA, the university was obligated to "license any patents arising from the work funded by the HEW on a non-exclusive basis and subject only to a reasonable royalty." *Id.* Genentech alleged that it was harmed when the university and Eli Lilly applied for, and ultimately received, a waiver of the licensing restrictions under the IPA, which then allowed the university to grant Eli Lilly an exclusive license to the patent at issue. *Id.* at 908. The court explained, "[a]pparently, Genentech's argument is that had the nonexclusive licensing provisions remained unaltered, Genentech would have had a right to obtain a license to the '877 patent—a right that would lave precluded UC from alleging Genentech infringed the '877." *Id.* at 920.

The court held that the third party beneficiary claim was a compulsory counterclaim. *Id.* It explained its holding as follows:

> Genentech apparently uses its third party beneficiary claim both *offensively and defensively*. Offensively, Genentech seeks to hold UC liable for its actions vis-a-vis the 1980 IPA between UC and the HEW and vis-a-vis the 1978 option agreement between Lilly and UC. Such claim would require this Court to consider the language of these agreements and the obligations the agreements placed on UC and Lilly. Defensively, Genentech asserts that the aforementioned agreements gave Genentech a right to a license to the '877 patent, and that this right should have precluded UC ever from lodging a patent infringement suit against it based on the '877 patent. *Since Genentech's defensive use of the third-party beneficiary claim will require an analysis of the same facts and law that offensive use of that claim would, we believe Genentech's third-party beneficiary claim properly is classified as compulsory.* To hold otherwise would mandate review of the same facts and the same law by a different tribunal at a later date. Such a holding would counter Rule 13(a)'s purpose of furthering judicial economy.

Id. (emphasis added).

The district court also addressed whether or not a claim for breach of a settlement agreement between the university and Genentech was a compulsory counterclaim. *Id.* at 922. According to Genentech, the settlement agreement contained a provision that authorized Genentech to use the materials that were at the heart of the patent dispute. *Id.* Therefore, Genentech argued, the settlement agreement provision was also a defense to the university's patent infringement claim. *Id.* The district court rejected Genentech's argument, but in doing so, it did not question Genentech's assumption that the

claim would be a compulsory counterclaim if it was based on the same facts as one of its defenses. Rather, the district court observed that there was nothing in Genentech's complaint that provided any suggestion that Genentech was asserting a defense based on prior authorization to use the material at issue. *Id.*

The district court in *Genentech* clearly held that the "transaction or occurrence" included the subject of the affirmative defenses, and this Court agrees. The Court concludes that counterclaims should be considered compulsory when they are based on the same "transaction or occurrence" as the plaintiff's causes of action *and* the affirmative defenses asserted in the action.

b. *Are Fujitsu's Counterclaims Logically Related to Its Affirmative Defenses?*

Fujitsu asserts that its counterclaims are based on the same facts as its affirmative defenses and points to evidence it says it will rely on in support of both its affirmative defenses and its counterclaims. UI, on the other hand, asserts that Fujitsu has failed to demonstrate that its counterclaims arise out of the same transaction or occurrence as its affirmative defenses. First, UI questions whether this issue can be resolved based on Fujitsu's assertions concerning the evidence it will rely on in the future. Second, UI challenges whether or not the facts on which Fujitsu relies in its counterclaims can, as a matter of law, provide a basis for its affirmative defenses.

The Court concludes that Fujitsu's counterclaims are based on the same underlying factual *allegations* as are its affirmative defenses. In particular, the factual allegations supporting Fujitsu's affirmative defense of unclean hands encompasses all of the conduct alleged in support of Counterclaims Six through Thirteen. Therefore, the Court holds

that UI has waived its Eleventh Amendment immunity as to Counterclaims Six through Thirteen.[15]

c. *Are Abuse of Process Counterclaims Permissive Under Pochiro?*

UI argues that under *Pochiro*, Fujitsu's counterclaims for abuse of process cannot be compulsory counterclaims. The Court is not persuaded by UI's argument.

In *Pochiro* the court concluded that all of the plaintiffs' claims, including their abuse of process claims, were barred as compulsory counterclaims. 827 F.2d at 1252. The court went on to discuss case law addressing whether or not abuse

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[15] In this Order, the Court does not reach the question of whether damages on Fujitsu's counterclaims against UI are limited to recoupment. The Court is also mindful that at this stage of the proceedings, it is impossible to know whether or not Fujitsu's affirmative defenses will be supported by the evidence. If the Court determines at a later stage of this case that Fujitsu's affirmative defenses are not supported by the evidence or are otherwise insufficient as a matter of law, it may be necessary to revisit the question of UI's waiver of Eleventh Amendment immunity. The Court declines UI's invitation to hold that some or all of the affirmative defenses (other than the Tenth, addressed below) do not allege facts sufficient to constitute an affirmative defense or contain surplus allegations of fact which do not amount to a defense. UI Reply at 7-11. First, UI's generalized objection on the pleadings to the unclean hands defense lacks merit. *See Precision Instruments Mfg. Co. v. Auto. Maintenance Mach.*, 324 U.S. 806 (1945) (holding that the doctrine of unclean hands "gives wide range to the equity court's use of discretion in refusing to aid the unclean litigant [and] is not bound by formula or restrained by any limitation that tends to trammel the free and just exercise of discretion"). That defense by itself contains all of the allegations included in the counterclaims. As a result, even if some of the defenses were stricken at this stage of the case, the overlap between the subject of the counterclaims and the subject of the affirmative defenses would still be 100%. Second, UI's attack on the sufficiency of the allegations in the affirmative defenses (other than the Tenth) comes not in the opening brief on a motion to strike, but in a *reply* brief on a motion to dismiss the *counterclaims*. It is improper to raise in reply a series of arguments that amount to an entirely new, unfiled motion.

of process claims are compulsory counterclaims in the action alleged to be abusive. *Id.* at 1252. The court noted that there was a split of authority as to "whether an abuse of process claim is a compulsory counterclaim in the very action which allegedly is abusive." *Id.* The court then rejected the line of cases that refused to find an abuse of process claim a compulsory counterclaim in the same action on the basis that such claims were unrelated to the underlying substantive claims. *Id.* The court noted that those cases were inconsistent with the Supreme Court's instruction that "'transaction' is a word of flexible meaning which may comprehend a series of occurrences if they have logical connection.'" *Id.* at 1252 (quoting *Moore v. New York Cotton Exch.*, 270 U.S. 593 (1926)).

Although *Pochiro* holds that an abuse of process claim is a compulsory counterclaim in the same action in which process is alleged to have been abused (which suggests, conversely, that such a claim cannot be a compulsory counterclaim in a subsequent action), *Pochiro* does not address a situation in which the process alleged to have been abused is a prior *administrative* proceeding. Where the prior proceeding is administrative, the abuse of process claim may not be recognized and/or the same relief might not be available as in a judicial proceeding. Under such circumstances, courts have held that rulings on claims brought in a prior administrative proceeding do not have preclusive effect, even if the claim before the administrative tribunal was based on the same transaction or occurrence as the claim that was later brought in federal court. *See Bio-Technology General Corp. v. Genentech, Inc.*, 80 F.3d 1553, 1563 (Fed. Cir. 1996). Thus, in *Bio-Technology General Corp.*, the court declined to give preclusive effect to the ITC's dismissal of an action, even though the district court action was based on the same claim, because the ITC did not have the power to award damages. *Id.* Here, as in *Bio-Technology General Corp.*, the relief that UI and Competitive could have obtained in the ITC

proceeding—in contrast to the relief available in this action—did not include damages. Therefore, under the reasoning of *Bio-Technology General Corp.*, Fujitsu's abuse of process counterclaims could not have been compulsory counterclaims in that action and are not barred in this action.[16]

B. *Subject Matter Jurisdiction*

Both Competitive and UI assert that the Court does not have subject matter jurisdiction over Fujitsu's Sixth through Thirteenth Counterclaims. First, both argue that there is no diversity jurisdiction as to these claims. Second, both argue that the counterclaims do not arise out of the same case or controversy as do UI's infringement causes of action and therefore, that there is no supplemental jurisdiction over Fujitsu's Sixth through Thirteenth Counterclaims. Finally, both argue that even if there is supplemental jurisdiction, the Court should exercise its discretion to decline to hear Fujitsu's counterclaims. For the reasons stated below, the Court concludes that there is diversity jurisdiction over Fujitsu's Sixth through Thirteenth Counterclaims against Competitive and supplemental jurisdiction over these counterclaims against UI.

1. Diversity Jurisdiction

a. *UI*

UI asserts that there can be no diversity jurisdiction over it because it is an arm of the state and a state is not a citizen for purposes of diversity. *See Moor v. County of Alameda*, 411 U.S. 693, 717 (1973) (noting that "[t]here is no question that a State is not a 'citizen' for the purposes of diversity

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[16] As discussed below, however, while this distinction undercuts UI's argument that the abuse of process counterclaims are permissive rather than compulsory, the fact that Fujitsu's counterclaims are based on a prior administrative proceeding also makes these counterclaims defective under Rule 12(b)(6).

jurisdiction"); *see also Univ. of South Ala. v. American Tobacco Co.*, 168 F.3d 405, 411 (9th Cir. 1999) (holding that state university was not a citizen for purposes of diversity jurisdiction and noting that analysis for determining whether entity is a citizen for purposes of diversity jurisdiction is the same as analysis for determining whether entity is entitled to Eleventh Amendment immunity). Fujitsu raises essentially the same arguments on this issue as it does with respect to the Eleventh Amendment immunity analysis. For the reasons stated above, the Court finds that UI is an arm of the state of Illinois and that there is no diversity jurisdiction over Fujitsu's Sixth through Thirteenth Counterclaims against UI.

b. *Competitive*

In its Reply, Competitive concedes that the requirements for diversity jurisdiction are met as to Counterclaims Six through Thirteen against Competitive. Competitive suggests, however, that the court does not have personal jurisdiction over Competitive. Reply at 2-3.

The Court rejects Competitive's assertion that this Court lacks personal jurisdiction over it. Competitive has provided no authority in support of this argument and has not explained why it has never, in the year since this case was transferred to the Northern District of California, brought a motion to dismiss for lack of personal jurisdiction. Competitive filed this action, and has therefore waived any objection to personal jurisdiction with respect to compulsory counterclaims. *See Baker v. Gold Seal Liquors, Inc.*, 417 U.S. 467, 469 n.1 (1974) (holding that where there is jurisdiction as to claim, no independent basis for federal jurisdiction required for compulsory counterclaim). The fact that this action was transferred from Illinois does not change this result. *See Grupke v. Linda Lori Sportswear, Inc.*, 174 F.R.D. 15, 18 (E.D.N.Y. 1997) (rejecting plaintiffs' assertion that court did not have personal jurisdiction with respect to compulsory counterclaims asserted against them, even though action had

been transferred on defendants' motion, on the basis that plaintiffs had continued to litigate their claims in transferee forum rather than dismissing claims to avoid trying them in transferee court); *Star-Brite Distributing, Inc. v. Gavin*, 746 F. Supp. 643 (N.D. Miss. 1990) (same). Following transfer, Competitive continued to prosecute this action in this Court, and has appeared before this Court on numerous occasions without ever asserting a lack of personal jurisdiction. Indeed, Competitive moved to dismiss the counterclaims at issue and did not raise personal jurisdiction until its Reply brief. Competitive has waived any objection to personal jurisdiction. The Court finds that it has subject matter jurisdiction over Fujitsu's Sixth through Thirteenth Counterclaims against Competitive on the basis of diversity.[17]

2. Supplemental Jurisdiction

a. *Do the Counterclaims Arise out of the Same Transaction or Occurrence?*

Because there is no diversity jurisdiction with respect to Fujitsu's Counterclaims Six through Thirteen against UI, the Court must address UI's argument that there also is no

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[17] Competitive also asserts that venue is improper as to these counterclaims. Competitive's argument is to no avail. It is well established that where venue is proper for the plaintiff's original claims and additional claims are asserted as counterclaims or cross-claims, a venue objection is unavailable. *See Bredberg v. Long*, 778 F.2d 1285, 1288 (8th Cir. 1985) (recognizing rule); *Shapo v. Engle*, 2000 WL 198435 (N.D. Ill.) (holding that intervenor was not required to satisfy venue requirements where venue was proper as to the plaintiff's claims); *see also* Wright & Miller, Federal Practice and Procedure, Juris 2d. § 3808. Because the district court in Illinois already determined that venue was proper in this Court with respect to UI and Competitive's patent infringement claims, Competitive may not now object to venue as to Fujitsu's compulsory counterclaims. *See Grupke*, 174 F.R.D. at 18 (holding that plaintiffs in transferred action could not object to venue in transferee forum where transferor court had determined that venue was proper in transferee forum as to plaintiffs' claims).

supplemental jurisdiction over these counterclaims. Pursuant to 28 U.S.C. § 1367(a), in an action in which the district court possesses original jurisdiction over a federal claim, the district court has supplemental jurisdiction over "all other claims that are so related to claims in the action within such original jurisdiction that they form part of the same case or controversy under Article III of the United States Constitution." Although some courts have suggested that the "case or controversy" test is broader than the "logical relationship test" that is applied to compulsory counterclaims, *see, e.g., Rothman v. Emory Univ.*, 123 F.3d 446, 454 (7th Cir. 1997), some have held that supplemental jurisdiction exists only as to compulsory counterclaims and not as to permissive counterclaims. *See, e.g., Hart v. Clayton-Parker and Assoc., Inc.*, 869 F. Supp. 774, 776 (D. Ariz. 1994). The Court need not resolve this issue, however, because it finds that Counterclaims Six through Thirteen are compulsory counterclaims, as discussed above. Accordingly, these counterclaims are part of the same case or controversy as UI's claims, regardless of which test is applied. Therefore, the Court may exercise supplemental jurisdiction over Counterclaims Six through Thirteen against UI.

b. *Should the Court Decline to Exercise Supplemental Jurisdiction?*

UI and Competitive assert that the Court should decline to exercise supplemental jurisdiction over Counterclaims Six through Thirteen under 28 U.S.C. § 1367(c). Section 1367(c) provides as follows:

> The district courts may decline to exercise supplemental jurisdiction over a claim under subsection (a) if—
>
> (1) the claim raises a novel or complex issue of State law,

> (2) the claim substantially predominates over the claim or claims over which the district court has original jurisdiction,
>
> (3) the district court has dismissed all claims over which it has original jurisdiction, or
>
> (4) in exceptional circumstances, there are other compelling reasons for declining jurisdiction.

28 U.S.C. § 1367(c). UI asserts that the Court should not exercise supplemental jurisdiction because Counterclaims Six through Thirteen will substantially predominate over the patent infringement claims.[18] The Court disagrees. Given that Fujitsu's counterclaims are based on the same facts as are the defenses it will present in this action, the Court finds that Fujitsu's counterclaims will not so substantially predominate as to justify the judicial inefficiency that would result if this Court were to decline to exercise supplemental jurisdiction.

D. *Sufficiency of Fujitsu's Allegations Under Rule 12(b)(6)*

UI and Competitive assert that even if this Court has jurisdiction over Fujitsu's Sixth through Thirteenth Counterclaims, all of those counterclaims should be dismissed for failure to state a claim under Rule 12(b)(6). Below, the Court addresses the sufficiency of each of these counterclaims.[19]

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[18] Competitive also argues that supplemental jurisdiction should not be exercised due to "exceptional circumstances" and because Fujitsu's counterclaims raise "complex issue[s] of state law." Because the Court concludes that subject matter jurisdiction over Counterclaims Six through Thirteen against Competitive is based on diversity, it need not reach these issues, which were not raised by UI. Even if the Court were to reach Competitive's arguments, however, the Court would reject them. None of the arguments raised by Competitive for declining to exercise supplemental jurisdiction provides a sufficient basis for reaching such a result.

[19] The Court does not determine at this stage of the case which state's laws will apply to Fujitsu's counterclaims, as such a determination would

1. Counterclaim Six (Breach of Confidentiality)

Fujitsu alleges in Counterclaim Six that its discussions with Competitive regarding licensing "were based on the understanding that the existence, status and substance of the discussions would remain in confidence." Answer to Amended Complaint at ¶ 80. Fujitsu further alleges that "CTI, acting with and for UI, repeatedly indicated by its conduct that it knew that the existence, status, and substance of its business discussions with Fujitsu were confidential and could not be disclosed without Fujitsu's permission." *Id.* at ¶ 81. In support of this allegation, Fujitsu cites to a letter Written by Robert Siegel, of Competitive, to the NEC Corporation in which he stated: "I regret that I am unable to disclose the names of the Japanese company which has already obtained a license [Matsushita] and the company with whom we are now negotiating [Fujitsu]. We do not disclose such matter when confidentiality has been requested." *Id.* at ¶ 82. Fujitsu also cites to a provision in a draft license agreement sent to Fujitsu by Competitive which included an anonymity provision. *Id.* at ¶ 83. That provision prohibited Competitive "from disclosing even the existence of the license without the prior written consent of Fujitsu." *Id.* at ¶ 83. Finally, Fujitsu alleges that its expectation that the negotiations would be kept confidential was based on a "custom and practice of patent licensing negotiations" that such negotiations be treated as "highly confidential." *Id.*

Next, Fujitsu alleges that "Counterdefendant CTI, acting with and for UI, with the assistance of others wilfully and repeatedly breached a duty to maintain the existence, status, and/or substance of the business discussions in confidence owed to Counterclaimants by making improper disclosures to

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be premature. However, where no actual conflict has been demonstrated between the laws of the various states whose laws might be applied, the Court relies on California law.

Matsushita and other competitors of counterclaimants in the PDP field." *Id.* at 86. Fujitsu further alleges that the improper disclosures gave Matsushita an improper competitive advantage over Fujitsu with respect to its own licensing negotiations with Competitive. *Id.* at ¶¶ 87, 90.

UI and Competitive assert that, whether Counterclaim Six is construed as a tort claim for breach of confidence or a contract claim for breach of implied contract, Fujitsu has failed to state a claim.

a. *Breach of Confidence*

Under California law, a plaintiff may bring an action in tort for breach of confidence.[20] *Entm't Research Group v. Genesis Creative Group, Inc.*, 122 F.3d 1211, 1226 (9th Cir. 1997). The court in *Entertainment Research* explained the claim as follows: "this cause of action recognizes an obligation in law where in fact the parties made no promise. It is not based upon apparent intentions of the involved parties; it is an obligation created by law for reasons of justice." *Id.* In order to prevail on such a claim, a plaintiff is required to establish the following elements:

> (1) the plaintiff conveyed "confidential and novel information" to the defendant; (2) the defendant had knowledge that the information was being disclosed in confidence; (3) there was an understanding between the defendant and the plaintiff that the confidence be main-

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[20] UI represents that there is no claim for breach of confidence in any of the other states whose laws might apply besides California. Fujitsu does not dispute this point. Fujitsu also does not appear to dispute Competitive's assertions that Counterclaim Six does not state a claim for breach of fiduciary duty. Rather, Fujitsu argues that it has stated a claim in Counterclaim Six for breach of confidence under California law and a claim for breach of implied contract under the laws of several other states whose laws might apply to this claim (including California). The Court agrees. Therefore, the court need not now resolve the choice of law issue as to this claim.

> tained; and (4) there was a disclosure or use in violation of the understanding.

Id.

UI and Competitive assert that Fujitsu fails to state a claim for breach of confidence because: 1) the information allegedly revealed was not confidential and novel; 2) UI could not be liable for breach of confidence because it is not alleged that UI had a personal relationship with Fujitsu and UI did not authorize the allegedly tortious act; and 3) Fujitsu has not alleged that it was damaged. None of the authority offered by UI and Competitive support the conclusion that dismissal of this claim, assuming it is construed as a breach of confidence claim, is warranted under Rule 12(b)(6).

First, UI and Competitive have presented no authority in support of their assertion that the existence of business discussions cannot constitute confidential and novel information for the purposes of the tort of breach of confidence. Nor does the Court find any such authority.

Second, Fujitsu has alleged sufficient facts to state a claim based on a theory of vicarious liability as to UI. It is well established that a principal may be liable for the tortious conduct of an agent, even if the principal has not authorized the conduct. *See* Restatement (Second) of Agency, § 216 (1958). Section 216 provides as follows:

> A master or other principal may be liable to another whose interests have been invaded by the tortious conduct of a servant or other agent, although the principal does not personally violate a duty to such other or authorize the conduct of the agent causing the invasion.

Restatement (Second) of Agency § 216. The comment to Section 216 explains further:

> A principal is often subject to liability for the unauthorized conduct of an agent with respect to matters which, under the agreement creating the relation, he has the

> right to direct. The range of conduct for which there may be liability is greater in the case of servants than in the case of agents who are not servants but, as to both classes, liability is normally based upon the fact that the tort is brought about in the course of an undertaking for the benefit, and subject to the right, of the principal to control his servant or other agent.

Id., comment a.

The cases relied on by UI do not support a contrary result. In particular, UI asserts that *Larsen Chelsey Realty Co. v. Larsen*, 656 A.2d 69 (Conn. 1995) and *A-G Foods, Inc. v. Pepperidge Farm, Inc.*, 579 A.2d 69, 74 (Conn. 1990) stand for the proposition that a principal may be liable for the tortious acts of its agents only if the tortious conduct was authorized or ratified by the principal. UI misstates the holding of both cases. In *Larsen*, the court addressed a motion to set aside judgment involving both a claim against a principal based on respondeat superior and a claim in which the plaintiff sought to hold the principal directly liable. The court explained the difference between the two claims as follows:

> In the twelfth count of its complaint, the plaintiff alleged that Pearce Company, independent of any vicarious liability, had itself committed the business related torts of interference with contractual relations and unfair competition. . . . This liability arises apart from, and is distinguishable from, liability under the theory of respondeat superior. . . . As we indicated previously, *the theory of respondeat superior attaches liability to a principal merely because the agent committed a tort while acting within the scope of his employment.* "It refers to those acts which are so closely connected with what the servant is employed to do, and so fairly and reasonably incidental to it, that they may be regarded as methods, even though quite improper ones, of carrying out the objectives of the employment." W. Prosser & W. Keeton, Torts (5th Ed.1984) § 70, p. 502. A principal